NEW ZEALAND ECONOMICS COMPETITION

Tuesday, 18th August 2009

Instructions:

1. Do not open this question booklet until instructed to.
2. You have fifty (50) minutes to answer all forty (40) questions.
3. Pencils and erasers only are permitted at your desk.
4. Read all instructions on the Response Sheet provided.
5. One (1) mark will be awarded for each correct response.
6. Avoid guessing, as one quarter (¼) of a mark will be deducted for each incorrect answer.
7. Choose the most correct option to the question and completely fill the corresponding box on the Response Sheet. Use PENCIL only.
8. Please make sure you complete your name and fill in the circles for each letter CORRECTLY on the Response Sheet. Any mistakes you make will appear on your certificate.
   (If you have a hyphen or an apostrophe in your name please leave the corresponding column of circles blank.)
1. For the theory of utility, it is assumed that marginal utility
   (a) increases as consumption of a good increases
   (b) remains constant as consumption of a good increases
   (c) diminishes as consumption of a good increases
   (d) becomes negative as consumption of a good decreases

2. Which of the following is true for a consumer in equilibrium?
   (a) The marginal utility of the last dollar spent on each good is equal
   (b) The total utility for each good consumed is equal
   (c) The total utility for each good consumed is zero
   (d) Total utility must decrease at an increasing rate

3. In recent months the price of fresh salmon has fallen and the quantity sold has risen. Which of the following events is consistent with this observation?
   (a) Consumers have acquired a renewed taste for fresh salmon
   (b) The price of meat rose
   (c) The price of meat fell
   (d) Fresh salmon catches have gone up in recent months
4. If the percentage change in quantity demanded for a good is less than the percentage change in price, then demand for the good is
(a) inelastic
(b) elastic
(c) unit elastic
(d) inferior

5. If a 15% increase in income results in a 30% fall in the demand for a good, then other things equal, this good is
(a) a complementary good
(b) a substitute good
(c) a normal good
(d) an inferior good

6. Collected data indicated that 12 units of product X were sold at $1 per unit. At a price of $0.90 it was found that 15 units of product X were sold. We may conclude
(a) product X is a complementary good
(b) the demand for product X is price elastic
(c) the demand for product X is price inelastic
(d) product X is an inferior good
7. When two goods are substitutes, the cross price elasticity of demand is
   (a) positive
   (b) zero
   (c) negative
   (d) unity

8. The addition to total output arising from employing one more worker is
   (a) average product
   (b) total product
   (c) marginal product
   (d) average marginal product

9. When marginal product is higher than average product
   (a) marginal product is negative
   (b) average product is increasing
   (c) average product is at a maximum
   (d) average product is decreasing

10. The addition to total variable cost when one more unit of output is produced is
    (a) marginal cost
    (b) total cost
    (c) fixed cost
    (d) none of the above
11. If a firm is currently producing no output, then total cost equals
   (a) zero
   (b) total variable cost
   (c) marginal cost
   (d) total fixed cost

12. Which of the following describes the relationship between average variable cost (AVC) and marginal cost (MC)?
   (a) MC intersects AVC at its lowest point
   (b) MC must always lie above AVC
   (c) MC must always lie below AVC
   (d) AVC and MC must always rise together as output increases

13. When a firm is experiencing diseconomies of scale, its long run total cost curve is
   (a) parallel to the horizontal axis
   (b) decreasing at a decreasing rate
   (c) increasing
   (d) decreasing at an increasing rate

14. For a firm, if marginal revenue is less than marginal cost, then
   (a) the firm is making an economic profit
   (b) the firm is breaking even
   (c) the firm should reduce its output to increase profit
   (d) each successive unit produced will raise total profits
15. A firm will shut down in the short run if
   (a) total revenue is greater than total cost
   (b) total cost is greater than total revenue
   (c) total revenue is less than total variable costs
   (d) it incurs an economic loss

16. A market characterised by easy entry and exit, many sellers and differentiated products is
   (a) natural monopoly
   (b) oligopoly
   (c) perfectly competitive
   (d) monopolistic competition

17. Suppose a perfectly competitive market is in long run equilibrium. The market demand curve then shifts to the right. After a short run adjustment to the new equilibrium
   (a) market supply will have shifted to the left
   (b) market price will be higher and quantity of output will be greater than originally
   (c) market price will be lower and quantity of output will be greater than originally
   (d) market price will be higher and quantity of output will be lower than originally
18. For a monopolist, when demand is price elastic, marginal revenue is
(a) negative and total revenue is falling
(b) positive and total revenue is rising
(c) zero, with total revenue at a maximum
(d) positive and total revenue is falling

19. If the production of a good results in high air pollution then
(a) not enough resources are allocated to the production of the good
(b) a tax on the product reduces market efficiency because the product demand curve shifts to the right
(c) market efficiency is improved if a tax on the pollution shifts the product supply curve to the left
(d) none of the above

20. Externalities occur when
(a) a product is produced at the least cost per unit
(b) there is a difference between the private costs and the social costs of producing a good
(c) there are no spill-over costs or benefits associated with production
(d) the costs of producing the good are private costs
21. In a perfectly competitive market, positive economic profits would, in the long run
   (a) persist
   (b) disappear due to increases in costs
   (c) disappear because the supply curve has shifted to the right
   (d) disappear due to economies of scale

22. An increase in real interest rates in New Zealand (NZ)
   (a) encourages both NZ and foreign residents to buy NZ assets
   (b) discourages both NZ and foreign residents from buying NZ assets
   (c) encourages NZ residents to buy NZ assets but discourages foreign residents from buying NZ assets
   (d) discourages NZ residents from buying NZ assets but encourages foreign residents to buy NZ assets

23. If the marginal revenue is zero, then
   (a) total revenue is zero
   (b) average revenue is zero
   (c) total revenue is at a maximum
   (d) average revenue is at a maximum
24. Unemployed resources for an economy can
   (a) cause the production possibilities frontier to shift inward
   (b) be shown as a point inside a production possibilities frontier
   (c) cause the slope of the production possibilities frontier to change
   (d) none of the above

25. Assume the marginal propensity to consume is 0.6 and national income increases by 6 billion dollars. The change in consumer expenditure will be
   (a) a decrease of $60 billion
   (b) a decrease of $10 billion
   (c) an increase of $3.6 billion
   (d) an increase of $10 billion

26. Suppose that firms produce more than they sell. In a circular flow model what is the most likely outcome?
   (a) A shortage of goods occurs
   (b) An increase in the general price level
   (c) An increase in firms' unplanned inventories
   (d) An increase in national income
27. In economics, the term investment means the purchase of
   (a) new capital goods
   (b) a government bond
   (c) a valuable antique
   (d) both (a) and (b) above

28. An increase in the interest rate causes investment to
   (a) fall and the exchange rate to appreciate
   (b) fall and the exchange rate to depreciate
   (c) remain unchanged as the exchange rate depreciates to
       offset the rise in interest rates
   (d) none of the above

29. Which of the following types of employment does NOT exist at
    the natural rate of unemployment?
   (a) Job search unemployment
   (b) Cyclical unemployment
   (c) Structural unemployment
   (d) All of the above
30. Crowding-out is a consequence of
   (a) an expansionary fiscal policy that increases interest rates and reduces planned investment
   (b) a rise in planned investment that increases government spending
   (c) planned saving exceeding planned investment
   (d) falling real interest rates

31. Suppose that in an economy, aggregate demand remains fixed but aggregate supply shifts to the left. Which of the following will occur?
   (a) Inflation and a fall in unemployment
   (b) Deflation and a fall in unemployment
   (c) Inflation and a rise in unemployment
   (d) Deflation and a rise in unemployment

32. Adverse supply shocks to an economy will result in
   (a) over employment
   (b) unemployment
   (c) cost push inflation
   (d) both (b) and (c) above
33. The most important difference between aggregate supply in the short run and aggregate supply in the long run is determined by whether or not
   (a) fiscal policy has changed over the time period
   (b) monetary policy has changed over the time period
   (c) people have fully adapted to changes in the price level
   (d) all of the above

34. In New Zealand, the most important instrument used in reducing inflation is
   (a) open market operations
   (b) “jaw boning”
   (c) the reserve ratio requirements of the trading banks
   (d) the Official Cash Rate

35. Which of the following outcomes would indicate to observers that the Reserve Bank of New Zealand was following a “tight” monetary policy?
   (a) An increase in the money supply
   (b) A fall in interest rates
   (c) A rise in interest rates
   (d) Both (a) and (c) above
36. Which of the following would cause the aggregate demand curve to shift to the left?
   (a) An increase in government purchases
   (b) A decrease in stock prices
   (c) Consumers and firms become more optimistic about the future.
   (d) An increase in the price level

37. According to the Ricardian model of free trade, if a global free trade agreement was to be implemented,
   (a) each nation should specialise in areas in which it has a comparative advantage
   (b) global production, or world GDP (Gross Domestic Product), should decrease
   (c) unemployment would necessarily rise
   (d) both (a) and (b) above

38. The quantity theory of money states that
   (a) long run changes in velocity are useful indicators of changes in the money stock
   (b) long run changes in the money stock are useful predictors of changes in nominal GDP (Gross Domestic Product)
   (c) short run changes in the price level necessarily cause changes in real output
   (d) none of the above
39. If the government of Denmark implemented a policy that reduced national saving, the real exchange rate of Denmark’s currency would
   (a) depreciate and Danish net exports would rise
   (b) depreciate and Danish net exports would fall
   (c) appreciate and Danish net exports would rise
   (d) appreciate and Danish net exports would fall

40. If the New Zealand dollar is overvalued in foreign exchange markets then it will
   (a) buy less in foreign countries than it will buy at home
   (b) appreciate in value
   (c) fall below its equilibrium value in foreign exchange markets
   (d) buy more in foreign countries than it will buy at home

Thank you for participating in the
2009 New Zealand Economics Competition